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PRESENTATION

Operator

Ladies and gentlemen, thank you for standing by, and welcome to the China Lodging Group 2012 Q2 earnings conference call. (Operator Instructions). I must advise you that this conference is being recorded today, Friday 10 August 2012.

I'd now like to hand the conference over to your first speaker today, Ms. Ida Yu. Thank you. Please go ahead.

Ida Yu - *China Lodging Group Ltd - IR Manager*

Thank you, Laura. Hello everyone, and welcome to our second quarter 2012 earning conference call. Joining us today is Mr. Qi Ji, our founder, Executive Chairman and Chief Executive Officer, and Jenny Zhang, our Chief Financial Officer, who will elaborate on our Company's development strategy and the financial results for the second quarter 2012.

Following their prepared remarks, the CEO and the CFO will be available to answer your questions. Before we continue please note that the discussion today will include forward looking statements made under the Safe Harbor Provisions of the United States Private Securities Litigation Reform Act of 1995 (inaudible). Forward looking statements involve inherent risks and uncertainties. As such our results may be materially different from the views expressed today. A number of potential risks and uncertainties are outlined in our public filings with SEC. China Lodging Group does not undertake any obligations to update any forward looking statements except as required under applicable law.

On the call today we will also mention adjusted financial measures during the discussion of our performance. Reconciliations of those measures to comparable GAAP information can be found in the earnings release that was distributed earlier today.

As a reminder, this conference call is being recorded. The webcast of this conference call, as well as supplementary presentation slides are available on the IR section of China Lodging Group's website at ir.htinns.com.

Now I would like to turn the call over to Mr. Ji, who will be speaking in Chinese and his statement will be translated into English. Qi Ji, please.

Qi Ji - *China Lodging Group Ltd - Executive Chairman and CEO*

(interpreted) Good morning, everyone. Thank you for joining our earnings conference call today. In the second quarter 2012 we achieved our hotel opening target and better than expected operating results. Thus our second quarter net revenue exceeded the high end of our quarterly guidance, provided three months ago, by approximately 6%. On top of that, in the first half of 2012, we made solid progress in the implementation of our multi-brand strategy, which I will elaborate during the call today.

As you are aware, we completed an investment in Starway hotels in the second quarter, a mid-scale hotel brand in China. As shown on page 3 of our PowerPoint presentation we now have two brands, Seasons and Starway, to cover the mid-scale hotel segment, and another two brands, HanTing Express and Hi Inn, to address the economy hotel segment.

From the perspective of hotel product features, we've further distinguished the two mid-scale brands, with Seasons being a standardized performance-oriented brand and Starway non-standardized, variety-rich brand. Similarly, between the two economy brands, HanTing Express offers a standardized performance-oriented product, and Hi Inn, a non-standardized product with colorful design.

As shown on page 4, Seasons is typically priced at as RMB250 to RMB500 per night. In a similar location, a Seasons hotel would price at 30% to 50% premium to HanTing brand. As a result, Seasons proved to be a brand with good profitability.

Compared to Seasons, Starway currently has a wider price range from both the low and the high end. We would like to strengthen Starway's brand image as a mid-scale hotel chain by removing from the portfolio approximately 30 hotels that do not meet the brand quality requirement. After the change the price range of Starway is expected to increase to RMB250 to RMB600 per night.

Since inception, Starway adopted a strict franchise model under which Starway doesn't (inaudible) manage any of the hotels. Going forward, Starway will mainly adopt the manachised and the leased models. We believe that the model shift will bring our customers a more reliable service, our franchise a more attractive financial return, and us, a high revenue and a profit from your business. By the end of the second quarter we have successfully signed up the first manachised Starway hotel.

In the economy hotel market, HanTing Express is our flagship product, well (inaudible) and the leisure travelers seeking a quality product at an affordable price. HanTing Express has successfully penetrated into 124 cities, with nearly 700 hotels. We will further [enrich and] accelerate the growth of HanTing Express by increasing new opening of manachised hotels.

Compared to HanTing Express, Hi Inn features a smaller room and a simplified in-room amenities, and the price is lower than HanTing Express, on average. Hi Inn targets travelers, especially young people, who demand a more colorful design with a more competitive price.

We believe that such a full brand portfolio embraces the needs of a wide range of customers and provides us significant flexibility when consolidating various hotel assets in the market.

You're very welcome to check out our hotels across over 100 Chinese cities. For those of you who have been -- who have seen our hotels before, we hope the pictures on page -- who have not been to our hotels before, we hope the pictures on page 5 to page 8 would give you a flavor of the look and feel. On page 5, those are pictures from two Seasons hotels in Shanghai, located at downtown or CBD areas. Our Seasons hotels offer a sleek and functional lobby area, a comfortable room with flat panel TV and a stylish cafe.

On page 6, we showcase a few pictures from the Starway hotels, which embrace a rich variety of design. Starway features elegant rooms and a gorgeous public area with an overall quality of three to four star hotels.

The pictures on page 7 are from typical HanTing Express hotels which offer professionally designed rooms, a highly functional lobby area and free access to internet. The award-winning HanTing Express is well-regarded as a high quality brand in the economy hotel sector, leading the sector with highest RevPAR, ADR and occupancy.

Last but not least, as shown on page 8, Hi Inn's unique design creates a youthful and cheerful atmosphere. Priced lower than our HanTing Express, Hi Inn offers a very attractive price to budget constraints of travelers.

The four distinctly positioned brands will build and sustain our high growth in the next five to 10 years. As shown on page 9, we expect to have approximately 2500 hotels by the year of 2016 and 5000 hotels by the year of 2021, implying a hotel growth CAGR of 27% from now until 2016 and 15% from 2016 to 2021. We will primarily focus on economy and mid-scale hotel sectors. Beyond those two sectors we will also explore other attractive opportunities in the future.

By the year of 2016 we expect our two economy hotel brands in combination to exceed 2000 hotels, accounting for 80% to 84% of the portfolio, and the two mid-scale brands to reach 400 to 500 hotels, accounting for 16% to 20% of the portfolio. We are very excited with the tremendous opportunities offered by the fast growing Chinese travel and lodger markets. We are confident that our multi-brand strategy will enable us to grow into one of the top ten hotel groups globally by 2021.

Now Jenny will walk you through key metrics of our second quarter operating and financial results. Jenny, please.

Jenny Zhang - *China Lodging Group Ltd - CFO*

Thanks Qi Ji. Hello, everyone. I'm pleased to report our second quarter results. Before we move into discussion please allow me to elaborate on new terminology we started to use this quarter which is manachised hotels, which refer to our franchised-and-managed hotels. For the Starway hotels under franchise agreements without direct management control, we call them franchised hotels. Since the franchised Starway hotels account for less than half a per cent of our revenue in 2012 and the portfolio is going through significant changes as Mr. Ji just described, we do not include them in our discussion of RevPAR, ADR and occupancy. However, leased and the manachised Starway hotels, once opened or converted from existing Starway hotels will be incorporated into our RevPAR, ADR and occupancy metrics.

All right. As shown on page 11, we opened 78 new hotels in the second quarter of 2012, with a record high pipeline of 377 hotels contracted. Our manachised hotels pipeline grew to 265 as we increased our communication to potential franchisees. In the long run we see ourselves in the business as hotel operators, hotel managers and brand owners, with manachised business contributing an increasing portion of our revenue.

On page 12, our Q2 net revenue increased 46% year-over-year, exceeding the high end of our quarterly guidance by 6%. Leased hotels revenue grew 44% and manachised and franchised hotels revenue grew 60% year-over-year. This quarter, our manachised and franchised hotel revenue reached a milestone of 10% of our total revenue.

Driving the significant growth of our revenue were our fast increasing number of hotel rooms and an improved RevPAR performance. As shown on page 13, at the end of the second quarter of 2012, our hotel room count grew 43% from a year ago. At the same time, during the quarter, our RevPAR came in at RMB176, representing a 4% increase from the same quarter, 2011.

The year-over-year RevPAR improvement was mainly driven by strong performance in occupancy, as shown on page 14. In the second quarter occupancy reached 97%, up from 93% the same period last year, attributable to robust travel demand and a more mature hotel mix.

The ADR for all hotels was RMB181 in the second quarter of 2012, RMB1 lower than a year ago. The slight year-over-year decrease was mainly attributable to the (inaudible) shift of our hotels towards lower tier cities, partially offset by the same-hotel ADR appreciation.

As you can find on page 15, our same-hotel RevPAR has a very positive trend this quarter. The same-hotel RevPAR appreciated by 7% across the country, with 3% increase in ADR and 4% increase in occupancy.

Page 16 shows the main factors driving our EBIT margin. Starting from the lower left, the adjusted hotel operating cost increased by 0.5 points, mainly a result of the increase of personnel cost owing to inflation and higher incentive payouts. The pre-opening expense as a percentage of net revenue decreased by 1.5 points and adjusted SG&A expenses by 1.8 points, mainly due to the expansion of our revenue base. Combining all three factors, our EBIT margin improved by 2.8% points year-over-year in the second quarter of this year.

On page 17 we show our net cash balance which is [closed] at RMB556 million (sic - see call presentation slides page 17 "RMB555 million") at the end of the second quarter. For this quarter the operating cash flow were RMB181 million. We continue to deploy our cash into our network expansion with a cash flow of RMB257 this quarter.

We believe that our cash balance, our operating cash flow and our available credit facility will be sufficient to fund our expansion plans in the near future. Our strong performance in the first half of this year was mainly a result of robust domestic travel demand and the successful implementation of our multi-brand strategy. Both Seasons and the Hi Inn achieved above group average growth in terms of same-hotel RevPAR.

We are confident that China's domestic travel markets will continue to grow strongly. We adjusted our full revenue growth guidance to 38% to 41% from the previous announced 34.5% to 37.5%. In the third quarter we expect to achieve net revenues in the range of RMB845 million to RMB865 million, representing a 35% to 38% growth year-over-year.

With that we will now open the call to questions. Laura?

QUESTIONS AND ANSWERS

Operator

(Operator Instructions). Your first question comes from the line of Chenyi Lu from Cowen and Co. Please ask your question.

Chenyi Lu - *Cowen and Company - Analyst*

Thank you. I have a question regarding the Starway. Can you give us a revenue contribution that your hotel made in the second quarter? Also I see you guys have raised the annual guidance for 2012. Actually how much is actually coming from Starway? That would be great, thank you.

Jenny Zhang - *China Lodging Group Ltd - CFO*

The Starway hotels contributed RMB2 million revenue in the second quarter, so that's less than half per cent of our total revenue contribution. So it's a very tiny portion.

Chenyi Lu - *Cowen and Company - Analyst*

And then can you give us a view how much revenue you think Starway will contribute in the second half of 2012, that would be great.

Jenny Zhang - *China Lodging Group Ltd - CFO*

As I mentioned in the call just now, we believe it will remain below half a per cent.

Chenyi Lu - *Cowen and Company - Analyst*

Okay great, thank you, and then that's all my questions.

Jenny Zhang - *China Lodging Group Ltd - CFO*

Thank you.

Operator

Your next question comes from the line of [Hyun Jin Park] from Citi, please ask your question.

Unidentified Participant

Thank you, hi, I'd like to ask two questions. First of all, would you comment on the performance of different regions as well as performance for tier one and two cities versus the tier and three and four cities?

Also, in addition, since your RevPAR growth is strong compared to other peers, would you comment on how much of this is coming from regional differences such as strong Shanghai performance relative to other regions?

Also, my second question is would you give us the breakdown of revenue contributions for Seasons, Hi Inn and HanTing?

Jenny Zhang - *China Lodging Group Ltd - CFO*

Sure, we do see some difference, you know, between the different regions. In general, our cities in the Western part as well as a few of our top cities, like Beijing and Shanghai, are performing very strongly. We do see -- you know, actually we continue to see some weakness coming from the coastal areas including Shandong province, some cities in Zhejiang and Jiangsu province continue to perform weakly after the growth of exports slowdown in China.

Our asset allocation has always been concentrated more on the more developed cities. That could be part of the reason that our RevPAR is performing significantly stronger than the others. But we also believe our performance, even in the [same] city like Beijing and Shanghai, are still significantly better than our competitors. Therefore I think the main driver is still our strategy, our brand positioning, and our execution.

In terms of the by brand, same-hotel RevPAR growth, we're seeing Seasons and the Hi Inn are showing a higher same-hotel RevPAR growth compared with our HanTing Express

Unidentified Participant

Also, would you be able to give us the revenue contribution breakdown for the three different hotels?

Jenny Zhang - *China Lodging Group Ltd - CFO*

Currently we do not provide certain reporting data.

Unidentified Participant

Okay thank you.

Jenny Zhang - *China Lodging Group Ltd - CFO*

You're welcome.

Operator

Your next question comes from the line of Ella Ji from Oppenheimer, please ask your question.

Ella Ji - *Oppenheimer & Co - Analyst*

Thank you. First a clarification, start with, will you convert the existing 110 hotels to manachised or lease and operated hotels, or will you leave them as franchised hotels?

Jenny Zhang - *China Lodging Group Ltd - CFO*

Out of the current 110 hotels, first of all we will clear out approximately 30 hotels, not [quality] standard. For those 30, a few of them may be converted into HanTing Express hotels under lease or manachised model. The majority, you know, will basically leave the network. For the remaining 80, we will have a conversation with each of the franchisees. We believe some of them will agree to change the contract to become our manachised hotel. For those who will remain under the original franchise contract, we will continue to observe them under the original contract.

Ella Ji - *Oppenheimer & Co - Analyst*

Got it, and for those who will be converted to your manachised hotels, will you send your existing hotel managers to them or will you hire new managers for them?

Jenny Zhang - *China Lodging Group Ltd - CFO*

It depends. But the contracts are going to require the GM -- the new contract, if converted, are going to require the GM to become HanTing employees.

Ella Ji - *Oppenheimer & Co - Analyst*

I see, and then my second question is about the macro trend. Your second quarter's results again was very impressive. So could you comment on in your third quarter, what have you seen so far?

Then I think in the beginning of the year, you kind of conservatively guided to low single digit RevPAR growth for matured hotels. Now given the strong results in first half of the year, is there an update of this expectation on a full year basis?

Jenny Zhang - *China Lodging Group Ltd - CFO*

We believe the second half, we have seen so far, the demand remains strong. But in terms of the year-over-year comparison, we need to be aware that the first quarter, and also to a certain extent the second quarter, of 2011were not particularly strong. Therefore I believe our RevPAR -- very high same-hotel RevPAR growth has a certain element of a lower comparison base. However, for the second half of 2011, both Q3 and Q4 were much stronger, as you could see from our tracking of the same hotel RevPAR growth. Therefore, we don't expect that same hotel RevPAR appreciation this year for the second half would be as high as the first half.

Ella Ji - *Oppenheimer & Co - Analyst*

All right, got it, and then my last question is about your new cities that you entered. You expanded by 20 new cities this quarter. The [run rate] picked up strongly from historical, despite the macro situation is not very ideal. So, what brand did you enter when you enter new cities and on average how many hotels per each new city did you enter into Q2 '12?

Jenny Zhang - *China Lodging Group Ltd - CFO*

All the new cities entered through our more mature HanTing Express brand. The number of new hotels added to these 20 cities is actually fairly limited. I don't have the data by my hand, but it should be somewhere around 20. Normally we wouldn't open two hotels in the same quarter in a new city.

Ella Ji - *Oppenheimer & Co - Analyst*

Okay, and then going forward, how should we think about your expansion to -- you know, geographic expansion?

Jenny Zhang - *China Lodging Group Ltd - CFO*

As we described before, we are going to penetrate into more cities, as our customers are demanding a more convenient accessible network. We are going to, for our leased-and-operated hotels, we will remain very selective in terms of which cities that we get into. Therefore, the third tier cities will not account for a significant portion of our leased hotels in the next six to 12 months.

For franchised hotels, we have found that our franchisees have a lot more local connection compared with us, especially in the third to fourth tier cities, and therefore a lot of the new cities that we enter into, are going to be through our franchisees in the future.

Ella Ji - *Oppenheimer & Co - Analyst*

All right, got it, that's very helpful, thank you.

Jenny Zhang - *China Lodging Group Ltd - CFO*

Thank you Ella.

Operator

Your next question comes from the line Adam Krejcik from ROTH Capital Partners, please ask your question.

Adam Krejcik - *ROTH Capital Partners - Analyst*

Yeah hi, two questions for me. First, on the Starway, so just so we understand this correctly, are you going to -- you said you're going to maybe convert about 30 hotels, but are you going to expand the existing portfolio? Are they all going to be franchised? Or will you run it as -- develop some leased-and-operated hotels as well?

Then in terms of, are there any M&A opportunities out there like that and do you think you can -- does it make sense to keep adding new brands to your portfolio? Or do you feel good with the number of different brands that you have right now?

Jenny Zhang - *China Lodging Group Ltd - CFO*

Currently we of course are open minded to various M&A opportunities. But we don't think there are that many brands that could be as supplementary to our existing portfolio as Starway would have done. Therefore we may however continue to do some small sized acquisitions, but we don't feel there's a high likelihood that we will adding a lot of other economy hotel brands or mid-scale hotel brands.

We have a very clear structure for our brand strategy. We feel our focus will remain on existing four brands in the next 12 months.

Adam Krejcik - *ROTH Capital Partners - Analyst*

Can you remind us where our Starway properties -- are they located in any specific region and do they, kind of, gear more to business or leisure travelers?

Jenny Zhang - *China Lodging Group Ltd - CFO*

Starway hotels are spread across and around 30 cities across different parts of the country. In general, when we invest into it, [we take] an extremely asset light model, which only provides the brand. It's a pure franchise model, without any direct hotel management.

We're going to introduce two major changes as Mr. Ji has just elaborated. One, we need to strengthen the mid-scale hotel chain image of Starway. Therefore, we will clear out around 30 hotels that are low quality, low price. Secondly, what we are going to do is change the business model from pure franchise, to mainly manachised and leased. We are already in the process of that change.

Adam Krejcik - *ROTH Capital Partners - Analyst*

Okay, will that change the way you, in terms of how you recognize the revenue, at all? Will it come under -- will it still be under the franchised-and-managed revenue line, or will it move to a leased-and-operated?

Jenny Zhang - *China Lodging Group Ltd - CFO*

It depends on what kind of conversion was actually contracted. If the hotel changed into a leased hotel, then we will recognize the full revenue has become under the leased line, and then if we only change from a franchised agreement to a manachised agreement, then the revenue will still be captured under the manachised and the franchised hotel revenue.

Adam Krejcik - *ROTH Capital Partners - Analyst*

Got it, and then my second question is regarding your margins. So they picked up sequentially and were also up year-over-year, just wondering if you could comment on the trend for the second half? Do you think you maintain this margin structure or is there still room for improvement?

Jenny Zhang - *China Lodging Group Ltd - CFO*

As I said earlier, we're seeing, you know, last year, the first half year has a kind of a low base for comparison and the second half of last year was actually a better performed quarters relatively. Therefore we expect you know the margin for 2012 in the second half year. There is still some room for improvement from the (inaudible) of last year, but we don't expect such a significant quarter year-on-year margin improvement compared to the first half of the year.

Adam Krejcik - *ROTH Capital Partners - Analyst*

Understood, thank you. Thanks very much and congratulations on a good quarter.

Jenny Zhang - *China Lodging Group Ltd - CFO*

Thank you Adam.

Operator

Your next question comes from the line of Justin Kwok. Please ask your question.

Justin Kwok - *Goldman Sachs - Analyst*

Morning, thanks for taking my questions. I -- there's two parts of the question, the first part is do you mind to give us a little bit more color in terms of the sales channel and also the customer mix of the two mid-scale products versus the mainstream express in the way that for example, the sales through membership or your membership program, group [sessions] and also third party or the online agencies, the first part.

Then the second part of the question is we have seen a step up in terms of the competition and the OTA through coupons or other ways of pricing, where most of these pricing incentives are concentrated on the mid-scale hotel segment, and do you see an increased competition for your -- the Seasons or the Starway through this competition? Or how are you managing through the OTA's contribution or your own membership program and going forward for developing this segment in your portfolio. Thank you.

Jenny Zhang - *China Lodging Group Ltd - CFO*

You know, for in terms of marketing channel, you know, excluding Starway hotels, the other three brands like Seasons, HanTing Express and Hi Inn are sharing the same marketing channels, and also, share the same HanTing Club membership customer base.

Starway is still in the process of integrating into our marketing channels. We expect most of the Starway hotels will join the HanTing Club structure, and also adopt a similar customer base in the future.

In terms of OTA, we see very little impact on our business. As you can see, our room night growth through OTA has remained stabled at approximately 4%. We don't -- you know, we don't have a heavy reliance on the offline or online OTAs, so we don't expect their competition to have a significant impact on our business.

Justin Kwok - *Goldman Sachs - Analyst*

Thanks for that. In terms of the sales mix, do you see any change or any differences for Seasons versus Express, in terms of more like a group business where you sign on because you do have a corporate account some of them, and also through agencies, in a way?

Jenny Zhang - *China Lodging Group Ltd - CFO*

Justin I'm not sure I captured the question.

Justin Kwok - *Goldman Sachs - Analyst*

I'm sorry, I mean even within your existing portfolio for Express when compared to the mid-scale product like Seasons, do you see any differences in terms of your percentage of sales through different channels or in terms of the demand mix business and leisure mix, et cetera.

Jenny Zhang - *China Lodging Group Ltd - CFO*

We don't see a significant difference. Currently Seasons has a slightly higher membership (inaudible) contribution compared with HanTing Express. But the, you know, the general structure is very similar.

Justin Kwok - *Goldman Sachs - Analyst*

Thank you.

Jenny Zhang - *China Lodging Group Ltd - CFO*

Thank you.

Operator

Your next question comes from the line of Tian Hou from T H Capital. Please ask your question.

Tian Hou - *T H Capital - Analyst*

Hi Jenny. The question is regarding the renewal. So you have lots of, you know, leased-and-operated hotels. I guess, you know, some of them are enter into the renewal, you know, or expiration period. So as China, the price of commercial real estate are also going up, so do you see any impact in the future? How -- what's the percentage of hotels into this renewal period?

Jenny Zhang - *China Lodging Group Ltd - CFO*

You know, we have a very limited number of hotels have lease due in this year and next year. Actually I think you know, it's one handful. We have a very detailed disclosure of the lease expiration information in our (inaudible) just published in April this year. Please refer to that for more details.

In terms of the renewal process, we have already renewed one hotel coming due this year and another one coming due next year. We're continuing, you know, working on renewing the other hotel lease contracts.

In general we feel, you know, we will be able to keep most of the hotels, you know, under our network as far as we maintain our position as one of the best hotel operators in the market.

Tian Hou - *T H Capital - Analyst*

Is there a pressure in terms of the rental price?

Jenny Zhang - *China Lodging Group Ltd - CFO*

The rental price is subject to affordability in the market. You know, if a location has become a lot more attractive than a few years ago when the original contract was signed, yes we do expect some rental increase. But at the same time (inaudible) already achieved a significant RevPAR appreciation through the years. In the case of our -- one of the two renewals, we have seen the rental increase, but you know, the return with our significantly improved RevPAR is still attractive.

We also have locations which have not changed that significantly and we see very small escalation during the renewal, which happened in the other case we had the renewal.

Tian Hou - *T H Capital - Analyst*

Got it. So the other question is related to Starway, Jenny. So currently there's 101 hotels right? So you were saying that 30 of them are somehow not qualified. And so do you mean do you want to de-franchise with them? Or they're going to be you know, off the network? So I'm not quite understand that part.

Jenny Zhang - *China Lodging Group Ltd - CFO*

Most of the 30 hotels will be de-franchised, and a few of them if they agree to convert into our HanTing Express, and also if their quality can meet our HanTing Express standards, we will accept some of those conversions. But I believe most of them will be de-franchised.

Tian Hou - *T H Capital - Analyst*

Okay, so there's a structure change for the Starway. So when do you expect the total change to finish? So after change, the management change or the relationship with HanTing finishes and everything complete, what can be the annual revenue contribution from this brand?

Jenny Zhang - *China Lodging Group Ltd - CFO*

We believe this brand has a significant value to sign up new franchisees which will adopt a manachised model. We also believes it offers us the opportunity to sign [up] leased contracts with (inaudible) those existing two and four star hotels which may not fit into our Seasons design style but can well be received by the customers. So we believe the most of the value of the Starway brand will be captured to the future with the hotels opened.

Tian Hou - *T H Capital - Analyst*

Okay thank you, that's all my questions.

Jenny Zhang - *China Lodging Group Ltd - CFO*

Thank you.

Operator

Your next question comes from the line of Fawne Jiang. Please ask your question.

Fawne Jiang - *Brean Murray, Carret & Co - Analyst*

Good morning, thank you for taking my questions. The first one is actually regarding your two mid-scale brands right now. You have Season and now you have Starway. Given the two brands are really following to the similar price range, I just wonder how would you differentiate these two brands?

Also just wondering what's the difference, if there is any difference, in terms of customer mix between the two brands that could potentially offer cross-selling to the other brand going forward.

Jenny Zhang - *China Lodging Group Ltd - CFO*

First of all, Seasons hotel is going to become a performance-oriented, standardized product. Most of the hotels we put into the chain are going to go through a renovation to conform to our design standards. However, Starway are going to be more flexible, we would accept the existing three to four star hotels without major renovations. Therefore, the benefit of having those two brands are going to enable us to consolidate different types of properties.

Secondly, we expect the Seasons hotel has a customer group who will be slightly younger than the Starway hotels. Starway hotels will have more gorgeous lobby and also even more spacious rooms possibly and many of them will have a three star or a four star rating. Therefore they will be more attractive to slightly older customers who value the star rating more significantly.

Fawne Jiang - *Brean Murray, Carret & Co - Analyst*

Got it, thanks Jenny. Second question--

Jenny Zhang - *China Lodging Group Ltd - CFO*

You're welcome.

Fawne Jiang - *Brean Murray, Carret & Co - Analyst*

--is regarding the expansion for Starway. You mentioned that you signed a leased-and-operated for Starway in the second quarter. So what's the expansion plans for the second half of 2012 and potentially for the next two, three years? Also for this year, given you're in the process of integration, is there any associated expenses in terms of CapEx, or even promotional expenses that could be generated?

Jenny Zhang - *China Lodging Group Ltd - CFO*

This quarter, this year we don't expect a lot of new openings of Starway hotels. The main works are going to be focusing on (1) de-franchise some of the lower quality hotels and (2) converting some of the existing franchise hotels to manachised or leased.

Of course we have already started marketing the Starway brand to potential franchisees. We believe the pipeline will gradually build up throughout the second half of the year. But a lot of the new openings will not happen until next year and we will start to accelerate the Starway expansion starting from 2013.

Fawne Jiang - *Brean Murray, Carret & Co - Analyst*

Got it. Any associated expenses should we expect, additional expenses? Should we expect--

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Jenny Zhang - *China Lodging Group Ltd - CFO*

We have significantly streamlined the organization of Starway and successfully integrate them into all existing hotel management platforms. So we don't expect any significant expenses associated with the integration.

Fawne Jiang - *Brean Murray, Carret & Co - Analyst*

Got it. What's the average room per store for Starway approximately?

Jenny Zhang - *China Lodging Group Ltd - CFO*

Currently they are running at around 100.

Fawne Jiang - *Brean Murray, Carret & Co - Analyst*

Okay got it, thank you very much.

Operator

Your next question comes from the line of Lin He from Morgan Stanley. Please ask your question.

Lin He - *Morgan Stanley - Analyst*

Hi, good morning. Congratulations on the good quarter.

Jenny Zhang - *China Lodging Group Ltd - CFO*

Yeah good morning Lin.

Lin He - *Morgan Stanley - Analyst*

Hi. Just one follow up the same-store RevPAR growth. You had very strong same-store RevPAR growth for the quarter. Can you talk about the contribution from Shanghai and Beijing, these two strong markets. In other words, except for these two big markets, are your mature hotels in other smaller cities or lower tier cities still growing in same-store RevPAR?

Second question is about the labor cost. I think in the press release you mentioned that labor cost went up in the quarter because of the incentive bonus, and I think on the room basis, the increase was actually pretty significant for Q1 and Q2. So can you talk about the outlook for the next two quarters. Should we expect a similar level of growth? Thank you.

Jenny Zhang - *China Lodging Group Ltd - CFO*

Thank you Lin. You know, in terms of the same-store RevPAR growth across different regions, yes we do see Beijing and Shanghai are growing faster than other regions. But even excluding Shanghai and Beijing, we are also seeing on average single digit, you know, [would] say low to mid-single digit RevPAR growth in other parts of China.

In terms of the labor cost, we do see a significant increase this year, partly due to the inflation in salary and the social benefits this year. Also because of the strong sales performance, we also pay out more to our staff. We also are seeing a significant improvement in occupancy which also leads to more costs in the workforce. We expect the labor cost increase trend will continue in the second half of the year.

Lin He - *Morgan Stanley - Analyst*

Okay. Will you consider adjust price more aggressively to have a more reasonable occupancy? Because as you said, higher occupancy sometimes leads to higher operating cost.

Jenny Zhang - *China Lodging Group Ltd - CFO*

If you compared all of the percentage of (inaudible) costs and the revenue to our competitors, I believe we are still having significantly lower personnel costs as a percentage of the revenue compared to say [Hong Yi]. So we believe our cost structure is still reasonable and we have done a decent job in terms of cost control there.

Lin He - *Morgan Stanley - Analyst*

Okay, that makes sense.

Jenny Zhang - *China Lodging Group Ltd - CFO*

The other thing is, you know, the philosophy of us is that we should motivate our staff to achieve a higher performance. As a result I think the incentive scheme has played a positive role in our strong sales as well as profit achievement this year.

Lin He - *Morgan Stanley - Analyst*

Yeah, that makes sense, thanks Jenny.

Jenny Zhang - *China Lodging Group Ltd - CFO*

You're welcome.

Operator

Your next question comes from the line of Jamie Zhou from Macquarie. Please ask your question.

Jamie Zhou - *Macquarie Capital Securities Limited - Analyst*

Hi, good morning Jenny and management. Congratulations on a very strong quarter. My question is a follow up to the Starway questions asked earlier. I just want to get some colors on the structure of the investment that we made in Starway, what percentage ownership we have in Starway. Also, what's the current occupancy rate, as well as the franchise fee structure, as you know, what percentage of the franchise revenues are coming to us, as well as how long -- how many years of the franchise contracts are lasting as well, if we want to continue forward with the existing contract. Thanks, that's my first question.

Jenny Zhang - *China Lodging Group Ltd - CFO*

Sure. You know the Starway hotels currently accounts for a very small percentage of our revenue as we just discussed. We believe going forward, those pure franchise hotels of Starway will become an even smaller portion of our revenue contribution. Therefore, the current as you can see -- the current contracts are actually demanding a very small fee from the franchisee, because the service provided is also fairly limited.

Currently, the Starway hotels are not using our HanTing standardized PMS system, so you know we don't have very accurate data for their occupancy and ADR. They do provide some indicative data to us, but it may not be very reliable for external reporting purposes.

Jamie Zhou - *Macquarie Capital Securities Limited - Analyst*

Okay [that's helpful]. Now going forward for -- is it in our plan to change the franchised Starway hotels to our HanTing's own franchised terms, such as we charge 5% recurring percentage of revenue and lock them in for 10 years -- sorry, eight years term?

Jenny Zhang - *China Lodging Group Ltd - CFO*

For the new contracts that we are going to sign, it will be also a very similar fee structure and duration as our existing manachised contracts as you just described.

Jamie Zhou - *Macquarie Capital Securities Limited - Analyst*

Okay thanks. Now my second question is on HanTing Seasons. I notice that you guys have added three more HanTing Seasons in the second quarter. With the remainder of the year, looking at the very strong pipeline for both leased-and-operated and franchised hotels for the Group, how many of those are for the Season?

Jenny Zhang - *China Lodging Group Ltd - CFO*

In terms of hotel count, we had 27 Seasons hotels at the end of the second quarter. Is that your question?

Jamie Zhou - *Macquarie Capital Securities Limited - Analyst*

My question is regarding the HanTing Seasons pipeline for the foreseeable future and how many of the new hotels you are adding this year are going -- the remainder of this year, are going to be Seasons?

Jenny Zhang - *China Lodging Group Ltd - CFO*

I see. The plan is to add approximately 25 new Seasons hotels during the year. We have already added five in the first half of the year, so we will add close to 20 in the second half.

Jamie Zhou - *Macquarie Capital Securities Limited - Analyst*

Will any of them be franchised?

Jenny Zhang - *China Lodging Group Ltd - CFO*

Yes, out of the Seasons portfolio, about three quarters are leased hotels and one quarter are franchised hotels.

Jamie Zhou - *Macquarie Capital Securities Limited - Analyst*

Okay thank you, that's very helpful. Thank you Jenny, congratulations [for the year].

Jenny Zhang - *China Lodging Group Ltd - CFO*

You're welcome.

Operator

Your next question comes from the line of Vivian Hao from Deutsche Bank. Please ask your question.

Vivian Hao - *Deutsche Bank - Analyst*

Hi Jenny, thanks for taking my question. I understand that it's only halfway through the year, but that given the addition of the Starway portfolio, do you see any update -- can you give us any strategic update on your opening plans for fiscal '13? Would there be more portfolio mix change towards more manachised and franchised hotels?

Then the follow up question based on that is, if that's the case, shall we expect more visible incremental upside on the margin side? Thanks.

Jenny Zhang - *China Lodging Group Ltd - CFO*

In terms of the new opening, we are seeing a very strong pipeline from our manachised hotels. Therefore, it's very likely that we are going to exceed our earlier described opening guidance for the manachised hotels.

In terms of Starway hotels, we are going to go through a lot of changes during the year, so we actually expect the 110 hotels will decrease to somewhere around 80 by the end of this year.

Vivian Hao - *Deutsche Bank - Analyst*

Right. What's the implications for next year?

Jenny Zhang - *China Lodging Group Ltd - CFO*

Next year, we believe our manachised hotels will account for a (inaudible) percentage of our new hotel openings. We will, you know, provide more detailed information in terms of our opening plans in the second half of this year.

Vivian Hao - *Deutsche Bank - Analyst*

Okay, thank you.

Jenny Zhang - *China Lodging Group Ltd - CFO*

You're welcome, Vivian.

Operator

There are no further questions at this time, please continue.

Jenny Zhang - *China Lodging Group Ltd - CFO*

All right I think it's time to close the conference call.

Operator

Ladies and gentlemen, that does conclude our conference for today. Than you for participating, you may all disconnect.

Editor

Portions of this transcript that are marked (interpreted) were spoken by an interpreter present on the live call. The interpreter was provided by the Company sponsoring this Event.